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IN THE MATTER OF RESOURCE
PLANNING AND PROCUREMENT

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**FREEPORT MINERALS
CORPORATION AND ARIZONANS
FOR ELECTRIC CHOICE AND
COMPETITION'S COMMENTS ON
STAFF DRAFT ASSESSMENT OF
INTEGRATED RESOURCE PLANS**

Freeport Minerals Corporation and Arizonans for Electric Choice and Competition (jointly "AECC") hereby submits these Comments to the November 3, 2014 draft Staff Assessment ("Assessment") filed in the above-captioned matter.

INTRODUCTION

AECC supports the Integrated Resource Planning ("IRP") process as a means to ensure that Arizona electric utilities plan for and construct generation facilities when appropriate, but only after seeking wholesale market alternatives that represent the least-cost options for the benefit of ratepayers. Due to the rapid evolution of technology in both power supply/energy efficiency and demand/energy consumption, the market should dictate how generation resources are developed across a long planning horizon. There should be no mandated generation requirements. Rather, Arizona electric utilities must adapt their long-term resource needs to the changes in the market that are likely to offer more efficient and cost-effective solutions for both residential and commercial customers.

ASSESSMENT

I. Major Findings

The Assessment highlights some of AECC's concerns with long-range planning efforts that seek to justify the development of generation resources. AECC agrees with Staff's Major Finding that Arizona Public Service Company's ("APS") proposed Ocotillo Modernization Project does not represent the most economic choice for an additional 290MW of generation capacity. There is existing wholesale generation capacity in Arizona, and the market can provide more economic options without any incremental impact on the environment, as these generation facilities have already been built. APS' September 2014 updated "Managed Coal Strategy" Portfolio, which AECC prefers over the other alternatives, represents an estimated \$106 million dollar reduction in costs from the Base Portfolio originally filed in April 2014. However, if the Ocotillo Modernization Project were replaced with market power, the savings could be even more.

AECC also agrees with Staff's other Major Finding that APS and Tucson Electric Power Company's ("TEP") load forecasts are aggressive given the state of today's economy, as well as more recent load-growth data. In addition, the advent of new technologies in distributed generation, demand-side management and energy efficiency has altered the landscape of how electricity is generated and consumed; hence, the historical load growth patterns in Arizona upon which APS and TEP rely are outdated and do not accurately represent what future generation needs will be.

II. Annual Rate Increases

Of particular concern to AECC is the rate impact and projected annual rate increases for electricity based on the 2014 IRPs. The Assessment merely reports that the estimated average annual rate increase for APS and TEP is 4.4% and 3.9% respectively. However, there is no analysis as to whether these projected annual increases are consistent with projected annual increases in other regions of the United States. For instance,

1 according to the United States Energy Information Administration's November 2014
2 short-term outlook, retail electricity rates are projected to increase in 2015 throughout the
3 country by an average of 1.7%.¹ Understandably, new environmental regulations will
4 have impacts on the cost of electricity. Unfortunately, the Arizona utilities do not provide
5 any specific link or nexus between the expected cost of environmental regulatory
6 compliance, and the impact on rates (other than to provide a projected annual increase).
7 The Assessment should contain more information and detailed analysis about the link
8 between planned facilities and their project cost impact on rates.

9 **III. High Renewable Energy Portfolios**

10 Both APS and TEP studied resource portfolios with a larger renewable energy
11 component than what is included in their base portfolios. Renewable energy proponents
12 argue that the incremental cost of renewable technology can serve as a 'hedge' to
13 ratepayers and offset the risk of rising fuel prices – namely natural gas. Freeport
14 disagrees. Other than nuclear energy, natural gas provides the only reliable, low-carbon
15 energy source that can replace coal in both short and long-term markets. Furthermore, all
16 indications are that pricing for natural gas will remain steady for the foreseeable future.

17 Over the past 5 years, natural gas prices have gone down approximately 33%.
18 While both APS and TEP expects the price to rise by about 50% over the next 15 years,
19 there are several ways to mitigate exposure to rising fuel costs without investing in
20 expensive renewable generation that may itself become "stranded" by technological
21 improvements and increased efficiencies. In-house fuel hedging programs, coupled with
22 market purchases, can help equalize the price of fuel. However, there is no indication that
23 the long-term price of natural gas will make today's renewable technology more attractive
24 at the price per-kwh it takes to develop such resources.


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26 ¹ <http://www.eia.gov/forecasts/steo/report/electricity.cfm>

1 CONCLUSION

2 While the IRP process can be used as a tool by Arizona utilities to consider the
3 Commission and stakeholder input when addressing the need for additional generation, it
4 should not also be used to justify and mandate the construction of new facilities (both
5 traditional and renewable generation). Approval of specific projects should be done in
6 accordance with A.A.C. R14-2-704(E), subject to a concurrent review of market
7 alternatives to determine the most economic option in light of Commission mandates
8 concerning generation mix and portfolios. Finally, any final Commission order
9 acknowledging one or more resource plans should address the expected impact on
10 residential and commercial customer rates over the 15-year planning horizon, based on the
11 resources identified in each plan.

12 RESPECTFULLY SUBMITTED this 5th day of December, 2014.

13 FENNEMORE CRAIG, P.C.

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